

EXECUTIVE SUMMARY

MEMORANDUM FOR DCMC

FROM: DCMC-OB
Prepared by: Lt Col Karen E. Osborn/DCMC-OB/767-3442/April 29, 1999

SUBJECT: Activity Report for Management Reform Memoranda (MRM) 5 and 10

PURPOSE: To obtain the Commander's signature on the attached memorandum forwarding the subject report to USD (A&T), et al

Upon your approval of reports for MRMs 5 and 10 for the period ending March 31, 1999, DCMC-OB will make final dissemination and distribute electronically to DoD Integrated Product Team members via e-mail and the DCMC Home Page.

RECOMMENDATION: Commander sign the memorandum at TAB A.

Approved for Submission to the Commander: JILL E. PETTIBONE ___/s/_____

EXECUTIVE SUMMARY

MEMORANDUM FOR D/DD

FROM: DCMC-O

Prepared by: Lt Col Karen E. Osborn/DCMC-OB/767-3442/April 29, 1999

SUBJECT: Activity Reports for Management Reform Memoranda (MRM) 5 and 10

DISCUSSION:

Enclosed is quarterly report for MRMs 5 and 10 for the period ending March 31, 1999. It will be electronically distributed after your review.

RECOMMENDATION: D/DD review the memorandum at TAB A.

REVIEWED:

/s/ 5/17/99 Director

Comments:

Approved By: Major General Timothy P. Malishenko, USAF /s/ 5/5/99

DCMC-OB

May 6, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION AND TECHNOLOGY)
PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE (ACQUISITION AND TECHNOLOGY)
DIRECTOR, DEFENSE PROCUREMENT
DEPUTY UNDER SECRETARY OF DEFENSE (ACQUISITION REFORM)
DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (RESEARCH, DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE (ACQUISITION)
DIRECTOR, BALLISTIC MISSILE DEFENSE ORGANIZATION
THROUGH: DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Activity Reports for Management Reform Memoranda (MRM) 5 and 10

Forwarded for your review are the quarterly activity reports for MRMs 5 and 10. The reports are intended to keep you apprised of these high-visibility programs.

Should you have any questions or concerns regarding information contained in the attached reports, please contact Ms. Janice Hawk, (703) 767-3433, for MRM #5, and Lt Col Karen E. Osborn, (703) 767-3442, for MRM #10.

/s/

TIMOTHY P. MALISHENKO
Major General, USAF
Commander

Attachments

cc:

See Distribution

Distribution list:

OASA (RD&A)

ASN (RD&A) ARO

ASN (RD&A) ABM

PDASAF (Acq & Mgmt)

Joint Staff ATTN: J4/SMPED

DLSC Commander

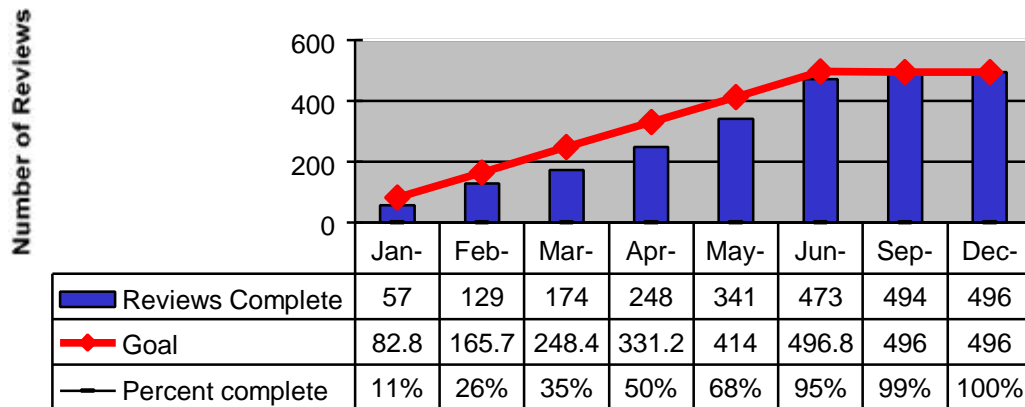
Management Reform Memorandum #5 (MRM #5)
Disposal of Excess Government-Owned Property
Monthly Report
Period Ending March 31, 1999

Purpose

- Dr. Hamre instituted MRM #5 in May 1997 as an effort to dispose of excess Government property in possession of defense contractors. The goal is to dispose of \$7 billion of property by January 1, 2000. MRM #5 is a joint effort of the Military Services and Defense Agencies, with Defense Contract Management Command as the lead agent.

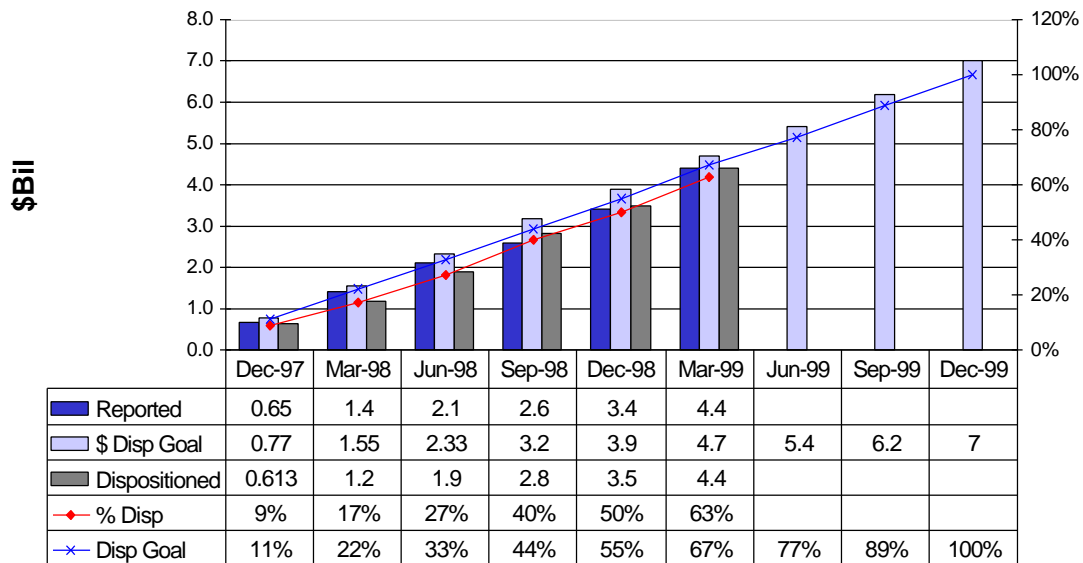
Status

- **Goal #1:** By June 30, 1998, review 100 percent of the contractors' systems with contracts having more than \$3 million of government property:
 - 100% of reviews completed (496 reviews complete).



- **Goal #2:** Dispose of \$7 billion of excess property by end of December 31, 1999.
 - \$4.4 billion dispositioned as of March 31, 1998 (63% of goal).
 - Reporting of excess is on an upward trend as focus shifts from completed utilization reviews to the disposal process.
 - \$2.275 billion reported excess in FY98 vs \$1.821 billion for FY97. This is a 40% increase in new receipts.
 - Acquisition value of property currently being processed (\$2 billion) is at the highest level in DCMC history.
 - If we continue to outpace FY97 data by over 25% and the proceeding statistics remain high, we believe we are on track to achieve the \$7 billion goal.

MRM #5 Goal-Dispose of \$7 Billion of Excess Property by January 1, 2000

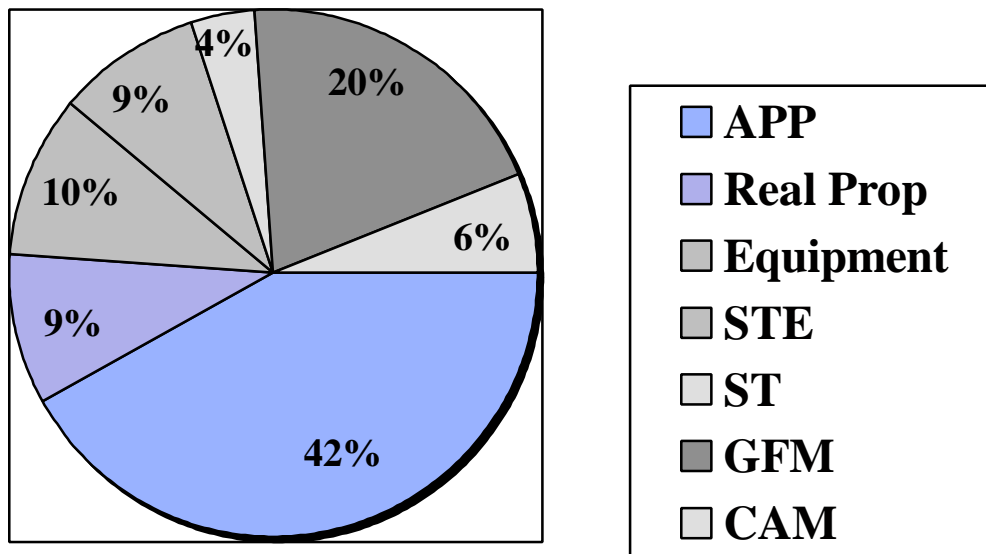


- **Other MRM #5 Actions:**

- In February 1998, the Director of Defense Procurement (DDP) issued three class deviations to FAR Part 45. For excess property reported to GSA, the screening time frames were reduced from 60 to 36 days. This change will be incorporated in the FAR 45 rewrite. For property in poor and salvage condition, along with special test equipment without standard components, GSA screening is no longer required. This deviation is in effect until March 2000. The third deviation waives GSA screening for all property in scrap condition. This change will be incorporated in the FAR 45 rewrite. All of these deviations will accelerate the disposal process.
- In June 1998, DDP issued Departmental Letter 98-014 to lower the level of approval required for the use of auctions, spot bids, and retail sales of surplus contractor inventory from the head of the contract administration activity to the commander of the contract administration office. The plant clearance process will be accelerated when these types of sales are authorized.
- Language has been incorporated into the rewrite of the Defense Demilitarization Manual, DoD 4160.21-M-1, which will reduce the scope of special tooling requiring demilitarization (currently 100%) to approximately 15%. This change will help accelerate

special tooling disposition. The Demilitarization Manual is expected to be published this year.

- DCMC has hosted training workshops for the DoD community, made presentations to defense contractors, prepared an MRM #5 informational video, and held workshops during Acquisition Reform Week #3. MRM #5 goals have also been discussed with industry associations and were presented at the 1998 National Education Seminar for the National Property Management Association in June.
- Government owns \$89 billion of government property in the possession of defense contractors -only \$44 billion (49%), not including APP and Real Property, is within the MRM 5 universe (top half).



APP - Agency Peculiar Property (Tanks, Engines)
STE - Special Test Equipment (Test Stations)
ST - Special Tooling (Jigs, Dies, Fixtures)
GFM - Government Furnished Material (Nuts, Bolts, Etc)
CAM - Contractor Acquired Material (Nuts, Bolts, Etc)
Equipment - (Computers, Lathes, Milling Machines, Etc.)
Real Property - (Land, Buildings)

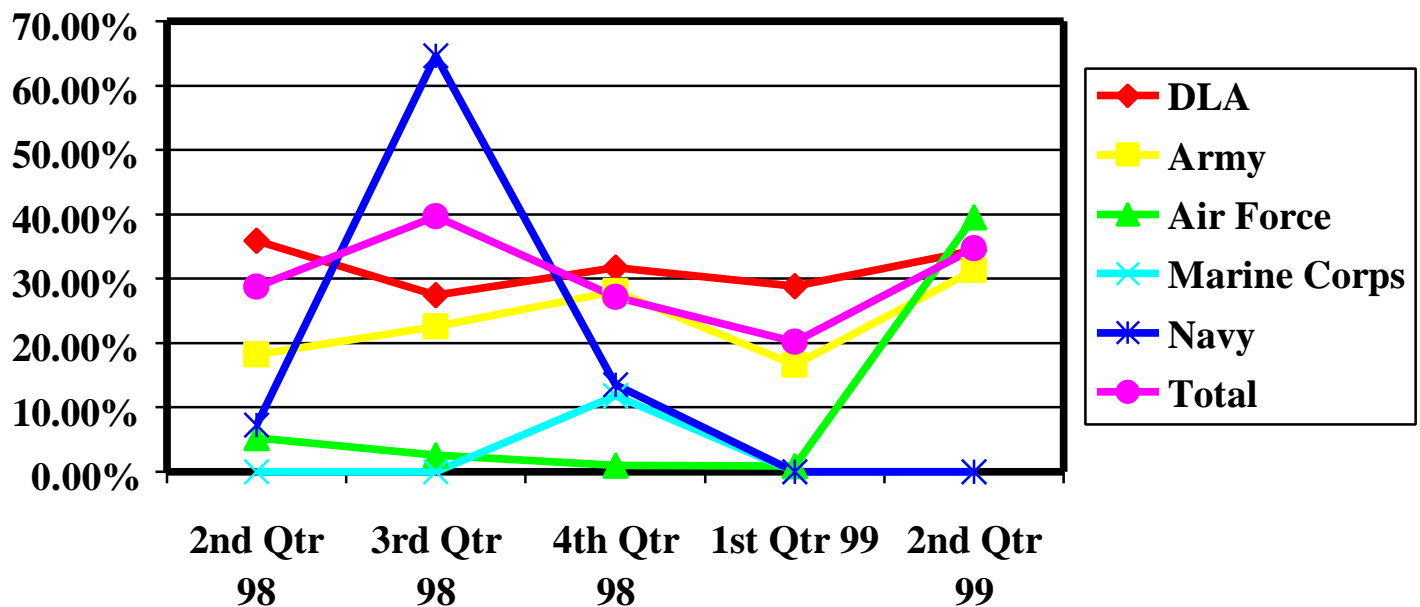
Management Reform Memorandum # 10 (MRM #10)
Redesigning Department of Defense Source Acceptance Policies and Procedures
Quarterly Report
Period Ending March 31, 1999

Purpose

- Perform a comprehensive reassessment of current source acceptance policies and procedures. Identify and eliminate policies and procedures that lead to the performance of unnecessary source inspection. Develop alternative methods of assuring quality.

Overall Summary

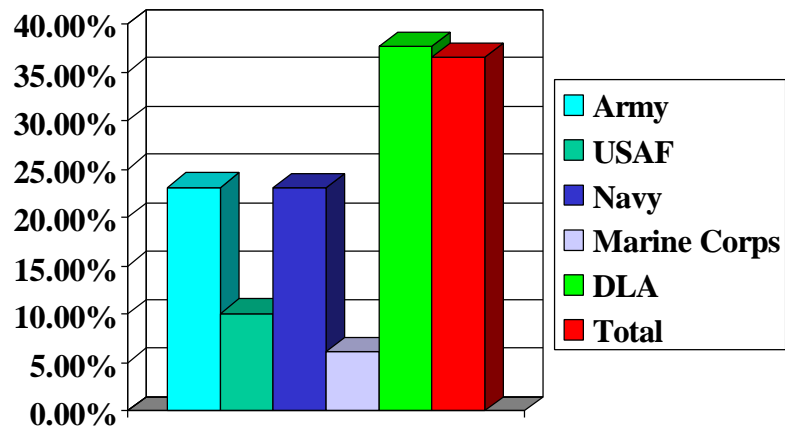
**Item Review Status—% GSI Removed
Through March 31, 1999**



	2ndQtrFY98	3rdQtrFY98	4thQtrFY98	1stQtrFY99	2 nd QtrFY99
Army	18.2	22.6	28.1	16.6	31.3
USAF	5.3	2.6	1.0	0.9	39.6
Navy	7.3	64.6	13.5	0	0
Marines	0	0	11.8	0	0
DLA	35.9	27.5	31.7	28.9	37.7
Total	29.0	39.7	27.2	20.2	34.7

Item Review Status Update

Through March 31, 1999



FY 98 2nd, 3rd & 4th Qtr, FY 99 1st and 2nd Qtr Cumulative Numbers

	Army	USAF	Navy	Marines	DLA	TOTAL
# Reviewed	12,998	11,163	24,454	98	393,764	442,477
# Removed GSI	2,997	1,130	5,615	6	148,255	158,003
% Removed GSI	23.1	10.1	23.0	6.1	37.7	35.7

- Most items are being reviewed “as procured”.
- Not all National Stock Numbers (NSN) are active--may never be reviewed.
- Numbers include mass computer changes of NSN categories.

DLA Totals	FY98 CUM	1st QTR FY99	2nd QTR FY99	Cumulative To Date
Number Unchanged	*212,147	15,946	17,416	245,509
Number Changed	*88,144 *44,456	6,500	9,155	*148,255
% Changed to Destination	38.5	28.9	34.4	37.7
Total Reviewed	*344,747	22,446	26,571	*393,764

* Includes mass computer changes

DLSC has determined that the review of buys requiring source inspection should be continued. All buys requiring source inspection will continue to be reviewed by Quality Assurance Specialists

who have been encouraged to replace the source inspection with destination inspection whenever there is no technical reason for having source inspection. Weekly, monthly, and quarterly audits by management personnel will be continued to ensure compliance. Recent transfers of aviation weapon system Consumable Item Transfer (CIT) items to Defense Supply Center Richmond (DSCR) have impacted source inspection percentages with source inspection determined necessary for most of the FSC 1615, helicopter rotor and drive train components, FSC 1650, aircraft hydraulics, FSC 1620, aircraft landing gear components, FSC 1660, aircraft press, and A/C components because they have flight critical application, are complex in nature, and require intensive management. Of the 109,946 total NSNs transferred to DSCR, only 12,584 were identified as suitable for inspection at destination.

DLSC will continue to emphasize the removal of source inspection at quarterly Quality Days, Management Control Visits to the Defense Supply Centers, and through local Defense Supply Center policy and management personnel.

Army	FY98 CUM	1st QTR FY99	2nd QTR FY99	Cumulative To Date
Number Unchanged	6,513	2,697	791	10,001
Number Changed	2,099	537	361	2,997
% Changed to Destination	24.4	16.6	31.3	23.1
Total Reviewed	8,612	3,234	1,152	12,998

FAR 46.402 approved class deviation deleted the mandatory requirement to perform Government contract quality assurance at source when higher-level contract requirements are included in a contract. Each Army Major Subordinate Command (MSC) has changed its local policies and standard operating procedures to institutionalize the concept of eliminating unnecessary Government Source Inspection (GSI). The Army has distributed and is using the Government Source Inspection Decision Guide developed by DCMC to determine when source inspection is necessary and can be eliminated.

Air Force	FY98 CUM	1st QTR FY99	2nd QTR FY99	Cumulative To Date
Number Unchanged	7,202	1,495	1,336	10,033
Number Changed	240	14	876	1,130
% Changed to Destination	3.2	.9	39.6	10.1
Total Reviewed	7,442	1,509	2,212	11,163

During the 2nd quarter of FY99, the Air Force conducted a review of Air Force processes and procedures to ensure they were complying with MRM #10. Part of the review included reviewing a DCMC-provided list of all active Air Force contracts containing GSI. That list provided valuable information that enabled the Air Force to capture GSI removal on 691 items that are part of the Gunter Air Force Base Desktop contracts. While the Desktop contracts are a one-time event, the review also helped identify process clarifications that will, in the long term, raise the Air Force's GSI reduction rate and help institutionalize the elimination of unnecessary GSI. The Air Force has distributed these clarifications to the field, and expects its cumulative GSI reduction rate to show steady improvement for the remainder of FY99. The Air Force believes its GSI

reduction rate is approaching an appropriate level considering the critical and complex nature of many of the parts for which it has retained procurement responsibility.

Marine Corps	FY98 CUM	1st QTR FY99	2nd QTR FY99	Cumulative To Date
Number Unchanged	55	27	10	92
Number Changed	6	0	0	6
% Changed to Destination	9.8	0	0	6.1
Total Reviewed	61	27	10	98

The Marine Corps has distributed guidance to its contracting offices to remind its contracting personnel to be ever vigilant in the removal of unnecessary GSI requirements from its contracts. Procurement Management Review teams will review this area during scheduled inspections.

Navy Totals	FY98 CUM	1st QTR FY99	2nd QTR FY99	Cumulative To Date
Number Unchanged	18,167	672	0	18,839
Number Changed	5,615	0	0	5,615
% Changed to Destination	23.6	0	0	23.0
Total Reviewed	23,782	672	0	24,454

Ahead of schedule. The Navy has reviewed 100% of items that are coded for GSI that are projected for procurement in FY 98 and FY 99.

To ensure that MRM #10 reforms are institutionalized for future buys, the Navy has implemented several initiatives. First, the Navy modified its provisioning system, the Interactive Computer Aided Provisioning/Ships Provisioning System for Ships and Submarine systems, to limit automated GSI to Level I/Subsafe items only. Modification of this system was completed on April 2, 1998.

The Navy Inventory Control Point developed a one-hour training course for equipment specialists. This training, which provided information on the new DoD policies and requirements regarding GSI, was provided to all required personnel by February 1998.

NAVSUP provided new policies regarding GSI in policy letter 4200 Ser 21B2/8114. This letter was posted on the NAVSUP Homepage and directed compliance by NAVSUP contracting personnel in implementing GSI reforms and reducing overall acquisition costs.

MRM #10 policies and reforms were briefed to NAVSUP and Navy SYSCOM personnel at several Navy forums, including Acquisition Reform Day and other acquisition-related conferences and meetings.

DCMC UPDATE:

- Briefed MRM #10 to:
 - DLSC/DCMC Deputy Commanders' Meeting on Feb 9, 1999

- NCMA Meeting on Feb 16, 1999
- AFMC-DLA Day on Feb 23, 1999
- DCMC Group Leaders Conference on Feb 24, 25 and 26, 1999
- Mr. Oliver, Principal Deputy Under Secretary of Defense (Acquisition and Technology), Dr. Spruill, Director, Acquisition Resources and Analysis (ARA), and LTG Glisson, Director, DLA, on Mar 22, 1999
- **Next Step - Supplier Excellence vs Parts Inspection:**
 - This will be the final MRM #10 quarterly report. After five quarters of reporting, we are near the end of our NSN review. DLA and the Military Departments have institutionalized the concept of eliminating unnecessary Government Source Inspection (GSI) and intend to continue their efforts.
 - Test Ideas - Approved by USD (A&T) and Deputy-USD (AR)
 - Strategy: Quality Assurance experiments/reinventions to test promising alternatives to traditional DoD supplier quality assurance by implementing experiments, collecting cost and performance data, analyzing the results, and providing closing recommendations to USD (A&T) and Deputy-USD (AR).
 - Reinvention Lab Status—we have developed the following prospective reinvention labs/initiatives which we will be pursuing over the next three years:
 - Conduct a small dollar study, via on-site visits to Contract Administration Offices, to look at how DCMC administers contracts, what value DCMC adds, and what the impact would be if DCMC stopped performing the tasks. Start date: March 1999.
 - Develop a training video to highlight why implementation of MRM #10 is important and to showcase what two Contract Administration Offices are doing to implement MRM #10. Start date: April 1999.
 - Greater reliance on second and third party quality system approvals through participation with industry associations; this is a world class quality assurance practice regarding supplier qualification which involves working with industry to develop quality system standards and conformance to the standard in lieu of the development of company-unique audits. Projected start date: June 1999.
 - Establish an experimental business process to inspect incoming materiel and perform special screening of stowed materiel at DLA depots. This is a DLA approach to eliminate unnecessary Government Source Inspection through increased emphasis on inspection at destination via sample testing. This would satisfy customer requirements for product inspections with the establishment of an inspection program of incoming materiel. Start date: March 1999.
 - Establish an experimental business process that will test the feasibility of contracting out specific DCMC services. This business process would allow us to satisfy customer desired inspection, testing and other DCMC services at remote locations where it is difficult to recruit and maintain DCMC personnel. It would also allow us to satisfy customer-desired inspection, testing and other DCMC services that require special skill sets that are not cost effective to develop and/or maintain. Projected start date: August 1999.
 - Develop suppliers as industry does, spending a significant amount of time developing a prospective supplier versus using great post-award quality assurance oversight efforts. To accommodate this change, we anticipate that exceptions to existing contracting

practices contained in the DFAR would have to be approved. The purpose of this experiment would be to determine if a reduction in DCMC quality assurance efforts would occur if DoD adopted this industry practice. Projected start date: June 2000.